

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
November 19, 2004

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland Ferrell, Trustee
Connie Thurman, Trustee
Bob Welch, Trustee

Others Present

Craig Hartzler, Executive Director
Bruce Kimery, Deputy Executive Director/Chief Benefits Officer
Leisa Julian, General Counsel

REGULAR SESSION

Trustees Present

Jonathan Birge, Chairman
Richard Doermer, Vice Chair
Garland Ferrell, Trustee
Connie Thurman, Trustee
Bob Welch, Trustee

Others Present

Elaine Beaty, McCready & Keene
Richard Lenor, McCready & Keene
Douglas Todd, McCready & Keene
Sunny Wood, Mercer
Walter Kelly, Clifton Gunderson
E.J. Tolentino, Clifton Gunderson
Michelle Hartman, Clifton Gunderson
Mary Beth Braitman, Ice Miller

PERF Staff Present

Craig Hartzler, Executive Director
Bruce Kimery, Deputy Executive Director/Chief Benefits Officer
Leisa Julian, General Counsel
Diann Clift, Chief Information Officer
Joseph Duncan, Investment Analyst
Irina Gladkov, Investment Analyst
Michael Hortsman, Chief Financial Officer
Clay Jackson, Chief Internal Auditor
Robert Lofland, Accounting Manager
Marty Montgomery, Retirement Benefits Supervisor
Charles Moore, Active Member/Refunds Supervisor
Doug Wesley, Investment Analyst
Jerry Porter, Executive Assistant to the Board

The Board of Trustees meeting was called to order by Chairman Birge.

I. APPROVAL OF THE MINUTES

MOTION duly made and carried to approve the Minutes of the September 17, 2004 Board of Trustees meeting.

<i>Proposed by:</i>	<i>Garland Ferrell</i>
<i>Seconded by:</i>	<i>Bob Welch</i>
<i>Votes:</i>	<i>Five in favor, 0 against, 0 abstentions</i>

II. OLD BUSINESS

A. State Board of Accounts Audit

- Mr. Hartzler reported that there were 23 major findings from the audit, and that staff has closed 10 of those findings. Examples of some of the findings were the mutual fund investment issue, tax withholding remittance errors, accounting for void checks and employer reserve charges.
- Mr. Ferrell asked if the accounting entry process is being completed on a timely manner. Mr. Kimery responded that the process is being completed in a timely manner.

B. Forensic Audit

- Mr. Hartzler reported that there was a 157-page report delivered to PERF that included 10 recommendations by the forensic audit. PERF staff has answered the 10 recommendations. The one recommendation that came about frequently was the monitoring of

Internet access. Staff has installed an Internet monitoring software system. The monitoring process will begin on Monday, November 22, 2004.

C. Internal Audit

- Mr. Jackson reported that since April 2002, PERF has had five internal audits. He handed out and reviewed the PERF Internal Audit Department Findings Follow-up Status Report. This report shows the status of each and every audit finding that has been in the reports since April 2002 and also the status of the review issues. He reported there have been a total of 28 audit findings, 13 still opened and 15 closed. One of the three review issues still remains open.

II. NEW BUSINESS

A. Ms. Montgomery – 40 Years of PERF Service

- Mr. Hartzler presented Ms. Montgomery, Retirement Benefits Supervisor, with a plaque and congratulated her for 40 years of outstanding PERF service. Ms. Montgomery thanked Mr. Hartzler and the Board for taking time to recognize her 40 years of service.

B. Actuarial Review

- Mr. Todd began by explaining reserve factors. He stated that mortality tables need to be updated after the experience studies are completed on the plans. He provided a handout on proposed reserve factors for the Board. He reported that reserve factors should reflect the current mortality and interest rates used in the preparation of annual actuarial evaluations, and recommended that the Board adopt these reserve factors.

MOTION duly made and carried to adopt the proposed reserve factors for PERF defined benefits plans reflecting the current mortality and interest rates used in the preparation of annual actuarial evaluations.

<i>Proposed by:</i>	<i>Garland Ferrell</i>
<i>Seconded by:</i>	<i>Connie Thurman</i>
<i>Votes:</i>	<i>Five in favor, 0 against, 0 abstentions</i>

C. PERF Policies

- Mr. Hartzler presented a FlexTime Policy and Tuition Program Policy for the Board's consideration as new personnel policies for the staff. Also, he presented an amendment to the Travel Policy which changed the per diem calculation from 75% reimbursement on the first and last day of travel to 100%.

MOTION made and carried to adopt the FlexTime Policy, amendment to the Travel Policy, and Tuition Program Policy.

Proposed by: Connie Thurman
Seconded by: Bob Welch
Votes: Five in favor, 0 against, 0 abstentions

D. 2005 Board Meeting Dates

- Mr. Hartzler reviewed the list of 2005 Board Meeting Dates and recommended adoption of these dates. He recommended keeping the Board meeting dates the same as they are now – the third Friday of every month with the exception of August because the Board does not meet that month.

MOTION duly made and carried to approve the 2005 Board Meeting Dates.

Proposed by: Garland Ferrell
Seconded by: Richard Doermer
Votes: Five in favor, 0 against, 0 abstentions

E. IPSI Board Member

- Mr. Hartzler reminded the Board that they designated Ms. Julian and Mr. Kimery to represent PERF on the IPSI Board. Ms. Julian has suggested that it was time to give someone else an opportunity to serve on the IPSI Board. It was recommended to appoint Ms. Clift, PERF Chief Information Officer, to represent PERF on the IPSI Board effective January 17, 2005.

MOTION duly made and carried to appoint Ms. Clift , PERF Chief Information Officer, to represent PERF on the IPSI Board effective January 17, 2005.

Proposed by: Richard Doermer
Seconded by: Connie Thurman
Votes: Five in favor, 0 against, 0 abstentions

F. Financial Reports

- Mr. Hartzler reported that there are currently 110 employees at PERF with a goal of reaching 127 employees.
- Mr. Kimery began with personnel services and reported that staff is doing fine and is on target. Professional services are also on target. Mr. Kimery reported that there are no areas that warrant concern at this time.

G. 2005 General Salary Adjustment and Flat Grant

- Mr. Hartzer recommended that the Board adopt the 2005 General Salary Adjustment and Flat Grant recently announced by the Governor. The increase includes a 2% salary increase plus \$546.00 as a flat grant to help cover the cost of health insurance increases. This salary adjustment will go into effect in the December 2004 pay periods and will show on the January 2005 paychecks.

MOTION duly made and carried to adopt the 2005 General Salary Adjustment and Flat Grant of 2% salary increase and \$548 flat grant for health insurance premium increases

*Proposed by: Connie Thurman
Seconded by : Bob Welch
Votes: Five in favor, 0 against, 0 abstentions*

IV. COMMITTEE REPORTS/RECOMMENDATIONS

A. Investment Committee

- Mr. Doermer reported that the Investment Committee considered a revised format for the Performance and Compliance report developed by Mr. Boggs of Burnely Associates and the staff of J.P. Morgan. The report has been reduced from 53 pages to 31 pages. He also stated that J.P. Morgan reviewed the performance report for the third quarter ending September 30, 2004. The report indicated that investments are down seven tenths of one percent as a consolidated fund for the three-month period. Mercer was invited to comment on the report and Mr. Kryscio's comments were helpful. Mr. Boggs commented on the report, not confining himself to the performance aspects, but other aspects of the report as well. Mr. Duncan reviewed the October Monthly Performance Report, which indicated a total return on an annualized basis of 1.8 percent in October.
- Ms. Julian presented an action to ratify the action of nine of our managers to invest all or part of the funds under their management in mutual funds or commingled funds. They are, Invesco, Northern Trust, BGI Alpha Tilts Fund, Mondrain Investment Partners, Trusco Capital Management, Royce, Dimensional Fund Advisors, BGI – S&P 500 & EAFE, and JP Morgan. This action was recommended by the State Board of Accounts. Five of the managers had to do with the management of consolidated fund monies, and the other four had to do with annuity saving accounts.

MOTION duly made and carried to ratify the action of the nine managers to invest all or part of the funds under their management in mutual funds or commingled funds. They are, Invesco, Northern Trust,

BGI – Alpha Tilts Fund, Mondrain Investment Partners, Trusco Capital Management, BGI – S&P 500 & EAFE, Royce, Dimensional Fund Advisors, and JP Morgan.

Proposed by: Richard Doermer
Seconded by: Garland Ferrell
Votes: Five in favor, 0 against, 0 abstentions

B. Benefits Committee

- Ms. Thurman reported that refunds are approximately around the 500 mark per month and are being processed within 30 days. Member record processing is approximately 1,100 per month. Customer Satisfaction Survey is about 58.1 percent. There are 58,000 retirees paid a pension benefit every month. There have been 50 changes in the system and there was only one failure which is a huge improvement. She also reported there were New Units and Enlargements presented to the Board that were adopted, and required a vote by the Board.

MOTION duly made and carried to approve the 25 New Units and Enlargements presented to the Board.

Proposed by: Connie Thurman
Seconded by: Bob Welch
Votes: Five in favor, 0 against, 0 abstentions

- Ms. Thurman reported there were two Line of Duty Death Claims, one for Craig A. Bland, which the Committee approved, and one for Timothy J. Laird, which the Committee approved.

MOTION duly made and carried to accept the Line of Duty Death Claim for Craig A. Bland.

Proposed by: Garland Ferrell
Seconded by: Bob Welch
Votes: Five in favor, 0 against, 0 abstentions

MOTION duly made and carried to accept the Line of Duty Death Claim for Timothy J. Laird.

Proposed by: Connie Thurman
Seconded by: Garland Ferrell
Votes: Five in favor, 0 against, 0 abstentions

- Ms. Thurman reported there was a third claim for Police Officer James Davis. The claim was reviewed and determined ineligible because Officer Davis was not a State University Police Officer.

- Ms. Thurman reported that Mr. Moore, Active Member/Refund Supervisor, gave a presentation on how the work comes into that department and is processed on a daily basis. He reported that death refunds are the ones that give the staff the most problems. He read letters from actual members forwarded to PERF with identifying information stricken from the letters to preserve their confidentiality.

IV. REPORT OF EXECUTIVE DIRECTOR

A. Operations Update

- Mr. Hartzler reported that Crowe Chizek and Clifton Gunderson have been working hard on two projects that affect the audit by the State Board of Accounts. Crowe Chizek is doing the reconciliation of all the reserve accounts, as well as a reconciliation of cash. He reported the State Board of Accounts added 100 days of work to complete the PERF audit. Staff should receive the opinion letter in late January or early February. This is the letter that informs agencies whether they have a qualified or unqualified audit. The agency can expect to get the findings or the compliance report in late February or early March of 2005.

VI. DATE OF NEXT MEETING

- The date of the next Board of Trustees meeting will be December 17, 2004.

III. ADJOURNMENT

- There being no further business, the meet was adjourned.